

## Message Text

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53

ACTION NEA-12

INFO OCT-01 ADP-00 AID-20 EB-11 NSC-10 RSC-01 CIEP-02

TRSE-00 SS-15 STR-08 OMB-01 CEA-02 L-03 H-03 PA-03

PRS-01 USIA-15 CIAE-00 COME-00 FRB-02 INR-10 NSAE-00

XMB-07 OPIC-12 LAB-06 SIL-01 AGR-20 RSR-01 /167 W

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R 071310Z AUG 73

FM AMEMBASSY TEL AVIV

TO SECSTATE WASHDC 9327

C O N F I D E N T I A L TEL AVIV 6211

E O 11652: GDS

TAGS: ECON, EAID, IS

SUBJECT: RISING CONCERN ABOUT ISRAELI INFLATION

REF: TEL AVIV 5032

SUMMARY: ALTHOUGH SHORT-TERM PRICE FREEZE SEEMS LIKELY TO HOLD COST-OF-LIVING WITHIN BOUNDS THROUGH SEPTEMBER JEWISH HOLIDAYS AND OCTOBER ELECTION, SUCH SERIOUS PRESSURES OF DEMAND ARE RAMPANT IN ISRAELI ECONOMY THAT IT IS UNLIKELY SITUATION CAN EASILY BE BROUGHT UNDER CONTROL. VARIOUS GROUPS INCLUDING CABINET ARE STUDYING POSSIBLE MEASURES BUT ACTION UNLIKELY UNTIL AFTER ELECTIONS. BALANCE OF PAYMENTS LIKELY TO SHOW MAJOR DETERIORATION WITH CONSEQUENT DEMANDS FOR MORE US ECONOMIC ASSISTANCE  
END SUMMARY.

1. CABINET IS TO MEET THIS WEEK TO DISCUSS RECENTLY PUBLISHED REPORT BY BANK OF ISRAEL REQUIRED WHENEVER RISE IN MEANS OF PAYMENT EXCEEDS 15 PERCENT IN 12 MONTH PERIOD. REPORT RECOMMENDS STRINGENT MEASURE TO CUT DOWN INTERNAL DEMAND, REDUCTION OF GOVT SPENDING, RAISING OF INTEREST RATES ON GOVT DIRECTED LOANS TO EXPORT INDUSTRY. IN SEPARATE MOVE, CENTRAL BANK HAS MOVED TO FREEZE PRESENT LEVEL OF COMMERCIAL BANK LENDING.

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2. CABINET IS NOT LIKELY TO ROCK THE BOAT IN PRE-ELECTION

ATMOSPHERE BY ANY FURTHER STRINGENCIES. SAPIR'S CAMPAIGN LINE IS ALREADY EMERGING AS "YOU NEVER HAD IT SO GOOD." PRICE FREEZE IS STILL WORKING REASONABLY WELL, EXCEPTIONS USUALLY BEING GRANTED ONLY IF COSTS OF IMPORTED COMPONENTS HAVE GONE UP MARKEDLY. EVEN FOR THESE, SUBSIDIES ARE LIKELY TO BE INC- REASED TO KEEP FOOD PRICES DOWN AS BOTH JEWISH HOLIDAYS OF ROSH HASHANA AND SUCCOTH PLUS OCTOBER ELECTION LIMIT GOVT'S FREEDOM OF ACTION.

3. THERE IS GROWING CONCERN AMONG BOTH GOVT AND UNIVERSITY ECONOMISTS ABOUT MOUNTING INFLATINARY PRESSURES BUILDING UP WITHIN SYSTEM. THEY ARE LOKING AT US PHASE FOUR RISE IN FOOD PRICES AS OMEN OF WHAT THEY MUST EXPECT AS FREEZE IS LIFTED HERE AFTER ELECTION.

4. MEANWHILE TRIPARTITE COMMITTEE OF GOVT, HISTADRUT AND EMPLOYERS IS STUDYING FUTURE PLANS TO CURB INFLATION AFTER PRICE FREEZE TURNS TO THAW. THIS GROUP UNLIKELY MAKE ANY REAL PROGRESS IN PRE-ELECTION ATMOSPHERE AND IT IS GENERALLY ACCEPTED THAT SAPIR HAS PLAN IN HIS DRAWER TO BE IMPLEMENTED AFTER ELECTION. HIS FREEDOM OF ACTION HOWEVER WILL BE LIMITED EVEN THEN AS HE WILL BE CHALLENGED ON THIS ISSUE DURING CAMPAIGN.

5. DANGER TO US INTERESTS IN ALL THIS IS THAT ISRAELI ECONOMY HAS BECOME SO OVER-HEATED THAT ONLY MASSIVE IMPORTS CAN CUT INFLATION. MEANWHILE RISING COSTS ARE CUTTING INTO EXPORT DRIVE AND IN ADDITION DOMESTIC DEMAND IS KEEPING EXPORTS AWAY FROM FOREIGN MARKETS. RESULT IS LIKELY TO BE SERIOUS DE- TERIORATION OF BALANCE OF PAYMENTS POSITION WITH CONSEQUENT PRESSURE ON US TO INCREASE ASSISTANCE LEVELS.  
VELIOTES

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